



DISCIPLINARY DECISION
Cboe BZX Exchange, Inc.
File No. URE-7-03
Citigroup Global Markets Inc.

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rules

- Section 17(a) of the Exchange Act and Exchange Act Rule 17a-3 – Records to Be Made by Certain Exchange Members, Brokers and Dealers;
- BZX Rules 5.1 – Supervision, 18.1 – Adherence to Law, 18.2 – Conduct and Compliance with the Rules, 20.7 – Audit Trail, and 24.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information

Sanction

A censure and a monetary fine in the amount of \$12,135.

Effective Date

November 17, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
File No. URE-7-03

In the Matter of:

Citigroup Global Markets Inc.
388 Greenwich Street
Tower Building
New York, NY 10013

Subject

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3 – Expedited Proceeding, Citigroup Global Markets Inc. (“CGMI” or the “Firm”) submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules or of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein and during in or about January 2002 through in or about January 2021 (the “Review Period”), the Firm was acting as a registered Broker-Dealer. Since September 2008, the Firm has been a BZX Options Member registered to conduct business on the Exchange. The Firm’s registrations remain in effect.

VIOLATIVE CONDUCT

Applicable Rules

2. During all relevant periods, Exchange Rules 5.1 – Supervision, 18.1 – Adherence to Law, 18.2 – Conduct and Compliance with the Rules, 20.7 – Audit Trail, and 24.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information; Section 17(a) of the Exchange Act and Rule 17a-3 – Records to Be

Made by Certain Exchange Members, Brokers and Dealers thereunder, were in full force and effect.

3. During all relevant periods, BZX Rules defined the Capacity Codes to be marked on orders submitted to the Exchange. During the Review Period, the “F” capacity code was defined as for an OCC clearing member firm proprietary account.
4. During all relevant periods, Exchange Act Section 17(a)(1) provided that every member of a national securities exchange shall make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Securities and Exchange Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of this title.
5. During all relevant periods, Exchange Act Rule 17a-3(a)(6) required member firms to create a memorandum of each order, and any other instruction, showing the terms and conditions of the order.
6. During all relevant periods, BZX Rule 18.1 provided that “[n]o Options Member shall engage in conduct in violation of the Exchange Act or Rules thereunder, the Exchange Rules, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation therefor. Every Options Member shall supervise persons associated with the Member to assure compliance therewith.”
7. During all relevant periods, BZX Rule 18.2(a)(6) provided, in relevant part, that “[e]ach Options Member shall be responsible for ensuring that all arrangements made and systems used in connection with business conducted on BZX Options, and the transaction of such business itself, comply with the Options Member’s and associated persons’ obligations under the Exchange Rules, the Rules of the Clearing Corporation and any other relevant laws, rules, interpretations and obligations. In accordance with the Rules and in connection with business conducted on BZX Options, each Options Member shall [. . .] ensure that accurate information is input into the System, including, but not limited to, the Options Member’s capacity.”
8. During all relevant periods, BZX Rule 5.1 provided, in relevant part, that “[e]ach Trading Permit Holder shall establish, maintain and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business in which the Options Member engages and to supervise the activity of all associated persons. The written supervisory procedures and the system for

applying such procedures shall be reasonably designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.”

9. During all relevant periods, BZX Rule 20.7(a) provided that when entering orders on BZX Options, each Options Member shall submit order information in such form as may be prescribed by the Exchange in order to allow BZX Options to properly prioritize and match orders and report resulting transactions to the OCC. BZX Rule 20.7(b)(6) specifies that order records must at a minimum contain the Member Capacity.¹
10. During all relevant periods, BZX Rule 24.1(a) provided, in relevant part, that “[e]ach Options Member shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act and the rules and regulations thereunder.”

Capacity Code Violations

11. During the Review Period, the Firm marked options orders on behalf of its client and non-Broker Dealer affiliate, Citibank, N.A. (“CBNA”) in a non-customer capacity of Firm (“F”) where such orders should have been marked in a customer capacity (“C”).
12. In 2002, CBNA began to trade U.S. listed options as a hedge to over-the-counter equity-related derivative trades it entered with its customers. To effectuate this hedging strategy, CBNA opened a brokerage account with the Firm. Due to various reasons, the Firm (with notice to CBNA) made a decision to mark CBNA listed options trades with non-customer capacity “F.”
13. CBNA’s listed options trades also cleared in CGMI’s firm account at the Options Clearing Corporation (“OCC”), rather than its customer account at the OCC. During the Review Period, OCC By-Laws, Articles VI(3) and I(N)(1) permitted a member to clear the positions of a non-Broker-Dealer affiliate in the member’s firm account, but only if the member and the affiliate had executed a non-conforming subordination agreement (“NCSA”). The Firm and CBNA had not entered into an NCSA. Consequently, CBNA’s trades should have been marked with the “C” capacity code and not the “F” capacity code.

¹ On September 3, 2019, BZX Rule 20.7(b)(6) was modified from “Options Member’s capacity” to “User Capacity.” BZX Rule 16.1 defines a User as “[A]ny Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access).”

14. The Firm's failure to execute an NCSA with CBNA was self-identified by the Firm in late 2020. Upon confirming that CGMI and CBNA had never entered into an NCSA, CGMI notified the OCC of the potential rule violation of its By-Laws and ceased trading CBNA listed options through CGMI's Equity Derivatives trading desk.²
15. Because the Firm and CBNA never entered into an NCSA, all of the Firm's listed options trades on the Exchange entered and executed on behalf of CBNA during the Review Period were marked with the incorrect capacity code. Consequently, based on trade data available from June 1, 2012 through December 31, 2020, the Firm executed at least 18,532 orders totaling 606,067 contracts in an incorrect "F" capacity on behalf of CBNA on BZX during the period of June 2012 through December 2020.³
16. Further, the Firm's books and records did not reflect the correct capacity code for CBNA's trades.
17. The acts, practices, and conduct described in Paragraphs 11 through 16 constitute violations of Exchange Rules 18.1, 18.2, 20.7, and 24.1, as well as Section 17(a) of the Exchange Act and Rule 17a-3 thereunder.

Supervisory Violations

18. During the Review Period, the Firm failed to establish, maintain, and enforce its Written Supervisory Procedures ("WSPs") to reasonably prevent and detect violations of BZX rules with regards to accurately marking and executing its orders with correct capacity codes.
19. Specifically, beginning in 2002, the Firm marked the orders entered on behalf of its client and non-Broker-Dealer affiliate CBNA as "F" and codified this designation in its supervisory training materials thereafter. This designation was not reconsidered or altered until late 2020.
20. The acts, practices and conduct described in Paragraphs 18 and 19 constitute violations of Exchange Rule 5.1 by the Firm, in that the Firm failed to implement, maintain, and enforce WSPs, and a system for applying such procedures,

² On April 21, 2022, the Firm entered into an Offer of Settlement with the OCC regarding the violation of OCC By-Laws.

³ The Firm noted that it would be unduly burdensome to seek to retrieve trade data for the period beginning in 2002 through May 31, 2012.

reasonably designed to prevent and detect violations related to accurately marking and executing orders with correct capacity codes.

SANCTIONS

21. In light of the alleged rule violations describe above and taking into consideration the following: (i) the Firm self-reported the violation of OCC By-Laws and fully remediated the issue; (ii) there was no identified harm to the Firm's affiliate, CBNA; and (iii) the Firm did not gain any improper advantage by marking CBNA's orders with capacity code "F," the Firm consents to the imposition of the following sanctions:
 - a. A censure; and
 - b. A monetary fine in the amount of \$75,000, of which \$12,135 is payable to BZX.⁴

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations, and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 8.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO") in connection with the CRO's participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent.

The Firm agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) are due and payable. The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

⁴ The balance of the sanction will be paid to Cboe Exchange, Inc., Cboe C2 Exchange, Inc., and Cboe EDGX Exchange, Inc.

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by the Exchange or any other regulator against the Firm.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.

Date: 11/16/22

Citigroup Global Markets Inc.

By: 

Name: Mary E. Rensert

Title: Managing Director